

City Council

Mayor Stephen Zollman
Vice Mayor Jill McLewis
Phill Carter
Neysa Hinton
Sandra Maurer

**City Manager**

Don Schwartz
dschwartz@cityofsebastopol.gov
Assistant City Manager/City Clerk, MMC
Mary Gourley
mgourley@cityofsebastopol.gov

City of Sebastopol

March 24, 2025

To: City Council

From: Don Schwartz, City Manager

Re: Revenue Options: Status Report

Sebastopol has fiscal challenges. The passage of Measure U and the anticipated merger with the Gold Ridge Fire Department are notable steps, but the city needs substantial additional revenue to achieve long-term financial stability.

Background

On September 3 of last year, the Sebastopol City Council discussed options for generating additional revenue, with an emphasis on sustainable solutions. However, after a thorough analysis, it became clear that many of these options are infeasible or would only provide modest financial returns.

There are several efforts that could help. Some are underway and some need to be started. Recent efforts have focused on the most promising options:

1. Exploring an EIFD (Enhanced Infrastructure Financing District), which remains an active effort.
2. Measure U, and since then pursuing the revenue from the full ½ cent.
3. Reviewing the application for the Barlow Hotel, which will come to the Council for a decision in April. This has been the focus of our economic development efforts.
4. Pursuing consolidation of the Planning Commission and Design Review Board to streamline the approval process for new projects. At a minimum it is important to economic development that we change our approval process so that the Design Review Board acts before final Council approval of projects.
5. Updating building valuation fees, which we completed last Fall.

We are reviewing user fees—those fees charged for services provided to residents and businesses, such as building inspections, permits, and other administrative services. This review aims to ensure that the fees are aligned with the cost of providing these services and generate appropriate revenue.

Thus far, the review has not identified significant opportunities for increasing revenue beyond the standard adjustments based on the Consumer Price Index (CPI). The CPI-based increases are a common practice to keep up with inflation and rising operational costs.

Other opportunities include:

- a. Reviewing impact fees, or those we charge when new development requires funding to mitigate traffic impacts, expand water or sewer capacity, etc. This would be a substantial effort requiring outside consultant assistance.
- b. Considering a trench-cut ordinance that would require projects that excavate City streets to pay toward restoration.
- c. Reviewing the ordinance forbidding formula businesses, possibly changing it for parts of the city.
- d. Expanding economic development beyond the current activities mentioned above. Staff recommend creating an Economic Development Strategy. Economic development can include many different activities, and it would be worthwhile to create a thoughtful approach that engages the business community as partners.

Finally, some have suggested that increasing the housing stock in Sebastopol could generate additional revenue. On the surface, it seems logical that more housing would bring in more property tax revenue and possibly support local businesses through increased demand. However, new housing typically costs cities more to serve than it generates in revenue.

Despite these financial challenges, the need for additional housing in Sebastopol is clear. The community benefits of increased housing are undeniable. Thus, while new housing development will not solve the city's revenue shortfall, it is still an essential part of the long-term strategy for creating a sustainable, thriving community. Housing development will be pursued strategically, with an understanding of the long-term financial implications and the recognition that meeting the city's housing needs remains a key priority.